

# Quarterly Economic Review

*A Comparison of Selected National, Regional,  
and Local Economic Indicators*  
Loudoun County Department of Economic Development



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First Quarter 2004

## Holding a Good Portfolio

Many recent indicators suggest that the U.S. economy is poised for a strengthening recovery. The U.S. Leading Indicators, typically a reliable barometer for economic activity about 6 to 12 months in the future, have been trending convincingly upward. Inflation remains tame. Interest rates continue to hover around forty-year lows. Consumer sentiment soared in January 2004, increasing at a rate unmatched since 1992. And increased sentiment has translated into increases in retail sales. In 2003, total retail sales adjusted for inflation increased 3.0 percent, its best performance since 2000 and more than double the 2002 rate. Growth in Gross Domestic Product (GDP), although slower than the torrid third quarter pace, increased by 4.0 percent in the fourth quarter of 2003, exceeding its historic average. Nearly half of that growth was a result of increases in private sector investment. In particular, investment in equipment and software expanded robustly. Growth in investment is encouraging as it demonstrates business confidence. What may be more encouraging is the finding that the economy exceeded its historic average growth rate with minimal contribution from the federal sector, a feat that until recently had not been accomplished in the current recovery. Since the end of the recession in March 2001, the federal sector's contribution to total output growth has averaged about 30 percent. In the latest quarter, its contribution was 4 percent.

Unfortunately, the strengthening national economy has generated minimal employment growth. Between November 2003 and January 2004, the latest data available, payroll employment increased an anemic 0.1 percent. Increases in service sector employment, including health care and leisure, were all but offset by declines in manufacturing and government. It is unlikely that consumer confidence or above average GDP growth can persist without employment growth.

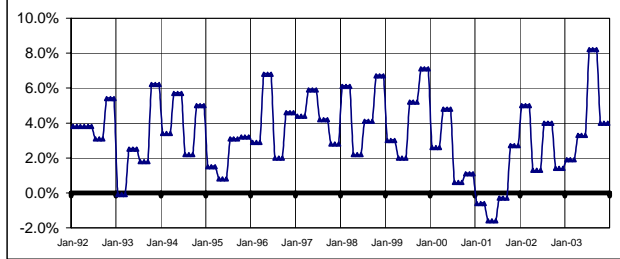
In contrast to stagnant national employment growth, Loudoun County's employment base has increased dramatically. Between the second quarter of 2002 and the second quarter of 2003, the latest data available, employment in Loudoun County increased by 5,501 jobs, or 5.6 percent. Two forces have contributed to that growth. First, the increase in employment has resulted from increased federal spending. Since the late 1990s, Loudoun County's share of those funds has been rapidly increasing and it appears that trend continued through 2003. Loudoun County's employment growth in professional & technical services and the federal government is likely a result of that trend. Second, the increase in employment has resulted from a rapidly increasing resident population in Loudoun County and has manifested itself in the form of retailers, teachers, and construction workers.

Looking forward, it is likely that Loudoun County will continue to experience better than average employment growth. The latest federal employment projections, released by the Bureau of Labor Statistics (BLS) this month, conclude that the fastest growing industries in the U.S. will be education & health services, professional & technical services, transportation & warehousing, and information. With the exception of education & health services, these are sectors in which Loudoun County currently maintains a strong concentration. In fact, Loudoun County's concentration of transportation employment is roughly three times that of the national average and Loudoun's concentration of information employment, second highest in the U.S., is roughly four times the national average. Based on BLS's employment projections, Loudoun County's portfolio appears to be well positioned to take advantage of the strengthening national economy.

## National Economic Indicators

### Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product (GDP). GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S., including goods and services. Source: BEA.

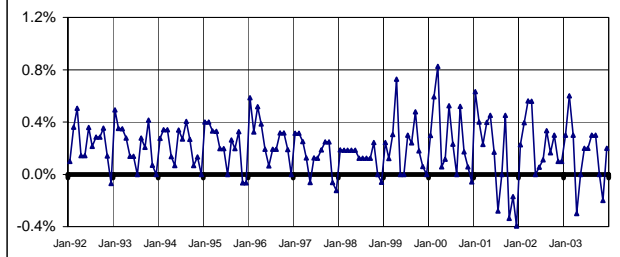


Recent Trend: **INCREASING**

GDP growth slowed to 4.0% in the fourth quarter from 8.2% in the third quarter, however, GDP growth is still higher than the historic average. Sources of strength in recent growth included residential construction, equipment and software, and business inventories. Growth in these sectors suggests that businesses are becoming more optimistic about future economic activity.

### Consumer Price Index

This variable measures the month over month percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS.

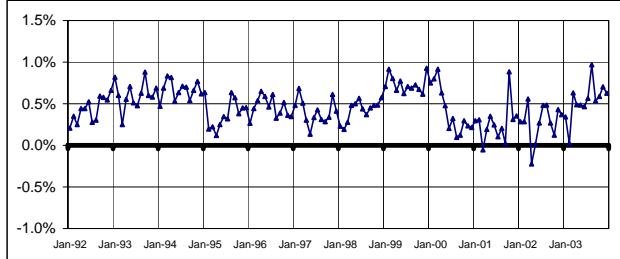


Recent Trend: **UNCLEAR**

Inflation remained low in 2003 and finished the year below its average. In December 2003, the CPI increased by 0.2% after declining by 0.2% in November. Despite increasingly strong economic growth in the latest quarter, Federal Reserve officials have signaled that increasing prices are not currently posing a threat, thereby easing fears of imminent interest rate hikes.

### Retail Sales

This variable measures the six month moving average percent change in U.S. retail sales, a timely indicator of broad consumer spending patterns. Data are adjusted for seasonal, holiday, and trading-day differences, but not for price changes. Source: Census Bureau.



Recent Trend: **INCREASING**

After stagnating more than two years, it appears that retail sales are trending upward. In fact, this indicator was above its ten year average for 9 out of the last 12 months. Continued growth in retail sales is likely in the first part of 2004 given increased consumer sentiment and relatively large tax returns. *Note: data in graph show a six-month moving average to smooth volatility.*

### Unemployment Duration

This variable measures the average length of time, in weeks, that unemployed persons have sought work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS.



Recent Trend: **INCREASING**

Despite increasing output growth, the labor market continues to underperform. In November 2003, the average duration of unemployment was 20 weeks, a 10-year high. Recent unemployment duration exceeded levels associated with the 1991 recession and recovery that followed. Robust economic growth will not occur without improvement in the labor market.

### Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Consumption is 66% of the U.S. economy. Source: University of Michigan. (1985=100).

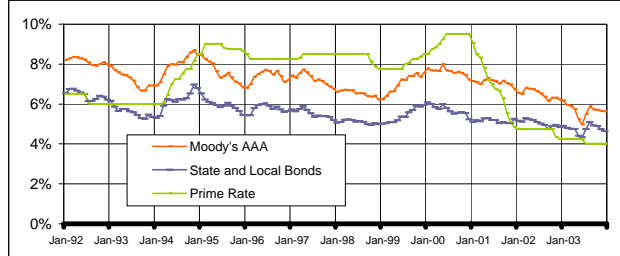


Recent Trend: **INCREASING**

Consumer sentiment spiked in January 2004 reaching 103.8 from 92.6 in December. That was the biggest monthly increase since 1992 and easily beat forecasts. Analysts point to increased expectations of tax returns in the first quarter and increased optimism that the labor market may finally be improving as causes for the significant jump in consumer confidence.

### Interest Rates

These variables measure rates of interest in money and capital markets. They are defined as follows: Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve.



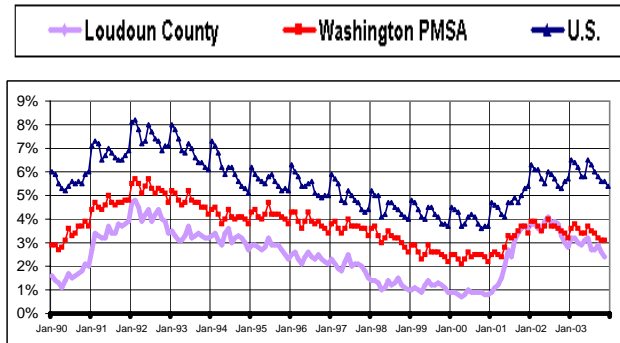
Recent Trend: **UNCLEAR**

Interest rates trended downward in the latest quarter after a recent spike. They are now at their lowest level since 1968 or earlier. Rates for AAA bonds, which are typically very close to 30-year fixed mortgage rates, have decreased for 4 consecutive months and were 5.62% in December 2003. Lower interest rates encourage spending and investment.

## Regional and Local Indicators

### Unemployment Rate

This variable is defined as the number of unemployed divided by the labor force by place of residence. Data are not seasonally adjusted and are subject to criticism at local levels, particularly in rapidly growing localities. Source: BLS Employment Report.

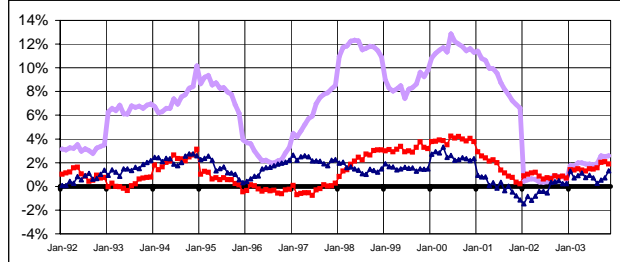


### Recent Trend: **DECREASING**

Labor markets tightened in 2003 both locally and nationally. December 2003 unemployment rates in Loudoun and the Washington metro area were significantly lower than the U.S. average. In fact, only 7% of all localities in the U.S. have a lower unemployment rate than does Loudoun. Washington's unemployment rate is the lowest among large metro areas.

### Civilian Employment

This variable measures the annual percent change in non-farm payroll employment on a place of residence basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS Employment Report.

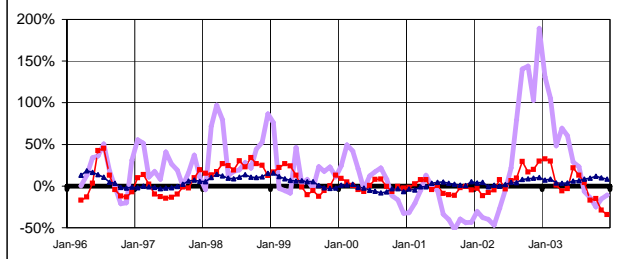


### Recent Trend: **INCREASING**

Local and regional employment growth continues to exceed the U.S. In November 2003, employment growth in Loudoun and the region averaged 2.6% and 2.0% respectively, well above the 0.8% U.S. rate. Loudoun's employment now ranks in the top 300 counties in the U.S. Washington's employment growth outpaced almost all other large metro areas in that period.

### Residential Bldg. Permits

This variable measures the year over year percent change in the three month moving average of residential building permits. These data can be volatile at the county level. Source: Census Bureau and Loudoun County Department of Economic Development.

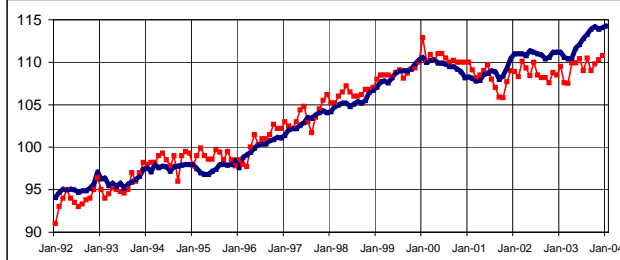


### Recent Trend: **UNCLEAR**

Loudoun County led Northern Virginia and the Washington Metro Area in the number of building permits issued in 2003. In that year, more than 6,600 permits were issued in Loudoun, an 11% growth rate and an all time record. In the region, almost 37,000 permits were issued, a 5% decrease over the 41,000 permits issued regionally in 2002. Note: data in graph show a three-month moving average to smooth volatility.

### Leading Indicators

Although these indices differ in composition, both forecast economic performance in the short term (about 6 to 12 months). The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index.

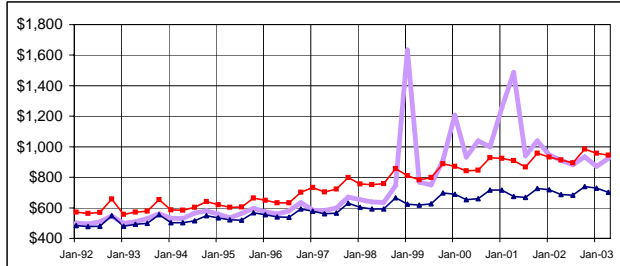


### Recent Trend: **INCREASING**

Leading indicators for national and regional economies continued their upward jog through the end of 2003. The U.S. Leading Indicator has increased for 8 of the last 9 months and in December 2003, reached its highest level in 45 years. Continued increases in these measures suggest that a more robust economic environment is forthcoming.

### Average Weekly Wages

This variable measures the average weekly wages in all industries for all employees covered by unemployment insurance. These data are not adjusted for inflation. Peaks are likely associated with bonuses. Source: Virginia Employment Commission and BLS.

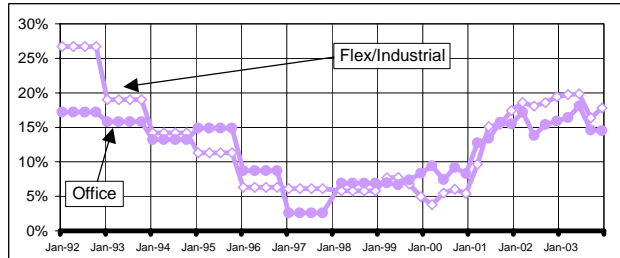


### Recent Trend: **UNCLEAR**

Local and regional wages continue to exceed the U.S. average. In the second quarter of 2003, the average weekly wage in Loudoun was \$944 versus a U.S. average of \$702. Wages in Loudoun, which dipped slightly below the regional average in 2002, appear to be converging with the regional average in 2003 and may also be reversing their recent downward trend.

### Loudoun's Vacancy Rates

These variables measure the share of office and industrial space that is vacant in Loudoun County, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable figures are not available. Source: Costar.



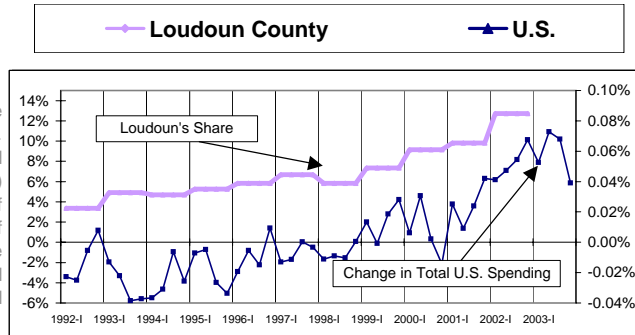
### Recent Trend: **UNCLEAR**

Office vacancy rates in Loudoun declined in the fourth quarter of 2003 for the second consecutive quarter. Those rates appear to have stabilized and were near 3-year lows in that period. Flex/Industrial vacancy rates fell sharply in the third quarter of 2003 but have since risen. In December 2003, nearly 4 million square feet of commercial space was vacant in Loudoun.

## Government Finance

### Federal Spending

These variables measure the percent change in total U.S. federal consumption and investment spending (left axis) and Loudoun County's share of that spending as a percent of the nation (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

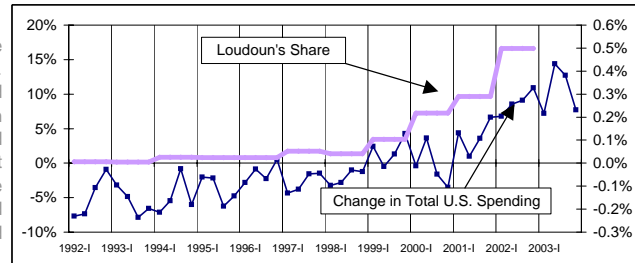


Recent Trend: **UNCLEAR**

The federal sector contributed strongly to recent local growth. Total U.S. federal spending increased by 8% in 2003 and Loudoun attracted an increasing share of that spending. In fact, Loudoun's share of total federal spending increased from 0.02% in 1992 to 0.08% in 2002. However, continued increases in federal spending are unlikely given the federal deficit.

### Federal Defense Spending

These variables measure the percent change in total U.S. federal consumption and investment spending on National Defense (left axis) and Loudoun County's share of that spending (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

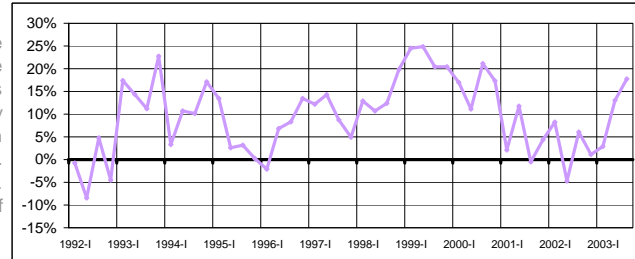


Recent Trend: **UNCLEAR**

Driven by increased homeland security, war, and terrorism threats, total defense spending increased by 10% in 2003. Loudoun's share of national defense dollars has increased dramatically, jumping from near zero in 1992 to 0.5% in 2002 reaching \$825 million. Recent declines in total federal spending suggest that this sector may not continue its rapid growth.

### Taxable Retail Sales

This variables measures the year over year percent change in total taxable retail sales collected in Loudoun County and allows insight into trends in local option sales tax revenue. Data are adjusted for inflation. Source: Virginia Department of Taxation.

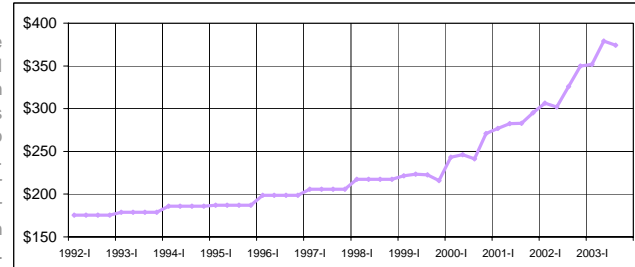


Recent Trend: **INCREASING**

Retail sales in Loudoun registered strong growth in the third quarter of 2003 increasing by 17.7% over the same period in 2002, adjusted for inflation. Sales fell significantly only once in the latest recession in the second quarter of 2002. Increases in retail sales in Loudoun are likely given an improving economy and Loudoun's increasing position as a retail destination.

### Average Housing Sales Price

This variable measures the average sales price for all housing units sold in Loudoun County in thousands of dollars and may offer insight into trends in property tax revenue. Data are not adjusted for inflation or product mix, age, or size. Source: Loudoun County Dept. of Financial Svcs.

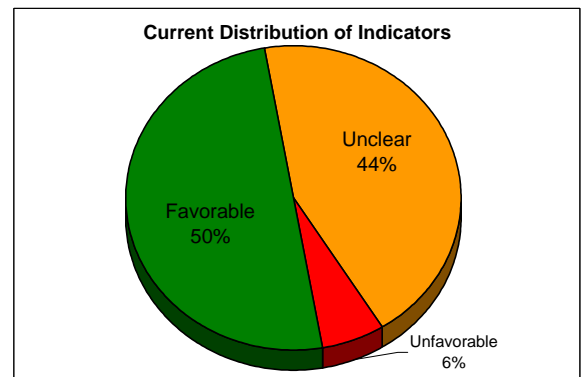


Recent Trend: **INCREASING**

The average sales price for all houses sold in Loudoun County in the third quarter of 2003 was \$374,000, a slight decline from the second quarter. In that quarter, the average sales price for detached homes was \$477,000, an increase of 12.3% over third quarter 2003. Average sales prices have been trending upward at an increasing rate driven by low interest rates.

## Summary

	Trend		Number of Indicators
Gross Domestic Product	INCREASING	Favorable	8
Consumer Price Index	UNCLEAR	Unclear	7
Retail Sales	INCREASING	Unfavorable	1
Unemployment Duration	INCREASING		
Consumer Sentiment	INCREASING		
Interest Rates	UNCLEAR		
Unemployment Rate	DECREASING		
Civilian Employment	INCREASING		
Residential Bldg. Permits	UNCLEAR		
Leading Indicators	INCREASING		
Average Weekly Wages	UNCLEAR		
Loudoun's Vacancy Rates	UNCLEAR		
Federal Spending	UNCLEAR		
Federal Defense Spending	UNCLEAR		
Taxable Retail Sales	INCREASING		
Average Housing Sales Price	INCREASING		



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